

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MONTMORENCY COUNTY RD COMMISSION	County MONTMORENCY
Audit Date 12/31/05	Opinion Date 2/17/06	Date Accountant Report Submitted to State: 6/26/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) THOMAS R. ZICK CPA, P.C.			
Street Address P.O. BOX 149	City LEWISTON	State MI	ZIP 49756
Accountant Signature 		Date 6/26/06	

MONTMORENCY COUNTY ROAD COMMISSION
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

MONTMORENCY COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Ted Orm
Commissioner

Merrill Walker
Commissioner

Alonzo Weaver
Commissioner

Joel Kim Bleech
Secretary/Manager

MONTMORENCY COUNTY ROAD COMMISSION
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Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

February 17, 2006

Board of County Road Commissioners
Montmorency County
Atlanta, MI 49709

I have audited the accompanying financial statements of the governmental activities and major fund of the Montmorency County Road Commission, a component unit of Montmorency County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Montmorency County Road Commission as of December 31, 2005 and the respective changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated February 17, 2006, on my consideration of Montmorency County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis on pages 3-8 and budgetary comparisons on pages 24 and 25 are not a required part of the basic financial statements, but supplementary information is required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

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Montmorency County Road Commission
February 17, 2006

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montmorency County Road Commission's basic financial statements. Other supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Montmorency County Road Commission and has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive script.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MONTMORENCY COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Montmorency County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the Road commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets were \$12,127,841 at December 31, 2005. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$11,455,693 at December 31, 2005. The increase in net assets is primarily the result of reporting infrastructure of \$1,190,118. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by Governmental Accounting Standards Board (GASB) Statement No. 34 in a previous year.

Net assets as of years ended December 31, 2005 and December 31, 2004 follow:

	12/31/05	12/31/04	Increase/ (Decrease)
Current and Other Assets	\$ 1,046,429	\$ 857,708	\$ 188,721
Capital Assets (Net)	12,816,922	12,120,498	696,424
Total Assets	<u>\$13,863,351</u>	<u>\$12,978,206</u>	<u>\$ 885,145</u>
Long-Term Debt Outstanding	\$ 1,399,643	\$ 1,137,941	\$ 261,702
Other Liabilities	335,867	72,052	263,815
Total Liabilities	<u>1,735,510</u>	<u>1,209,993</u>	<u>525,517</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	11,455,693	11,198,238	257,455
Restricted	672,148	569,975	102,173
Total Net Assets	<u>\$12,127,841</u>	<u>\$11,768,213</u>	<u>\$ 359,628</u>

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Since this is the first year the Road commission has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to calendar year 2003 is not available.

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2005 and December 31, 2004 follows:

	12/31/05	12/31/04	Increase/ (Decrease)
Revenues			
Licenses and Permits	\$ 38,504	\$ 39,414	\$ (910)
Federal Grants	227,513	309,517	(82,004)
State Grants	2,458,718	2,542,944	(84,226)
Contributions from Local Units	211,721	155,602	56,119
Reimbursements/Miscellaneous/Other	131,466	16,766	114,700
Interest and Rents	14,256	9,707	4,549
Gain on Equipment Disposal	-	4,005	(4,005)
Total Program Revenue	<u>3,082,178</u>	<u>3,077,955</u>	<u>4,223</u>
Expenditures			
Public Works	2,685,440	2,510,942	174,498
Interest Expense	37,110	36,672	438
Total Expenditures	<u>2,722,550</u>	<u>2,547,614</u>	<u>174,936</u>
Increase (Decrease) in Net Assets	<u>359,628</u>	<u>530,341</u>	<u>(170,713)</u>
Ending Net Assets	<u>\$12,127,841</u>	<u>\$11,768,213</u>	<u>\$ 359,628</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in Operating Fund for the years ended December 31, 2005 and December 31, 2004 is as follows:

	12/31/05	12/31/04	Increase/ (Decrease)
Revenues			
Licenses and Permits	\$ 38,504	\$ 39,414	\$ (910)
Federal Grants	227,513	309,517	(82,004)
State Grants	2,458,718	2,542,944	(84,226)
Contributions from Local Units	211,721	155,602	56,119
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Total Program Revenue	<u>3,082,178</u>	<u>3,077,955</u>	<u>4,223</u>

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Expenditures			
Public Works	3,173,256	3,254,890	(81,634)
Net Capital Outlay	208,655	(95,397)	304,052
Debt Service	145,985	78,577	67,408
Total Expenditures	<u>3,527,896</u>	<u>3,238,070</u>	<u>289,826</u>
Excess of Revenues Over (Under) Expenditures	(445,718)	(160,115)	(285,603)
Other Financing Sources (Uses)			
Loan Proceeds	<u>549,868</u>	-	<u>549,868</u>
Total Other Financing Sources	<u>549,868</u>	-	<u>549,868</u>
Revenues and Other Financing Sources Over (Under) Expenditures and (Uses)	104,150	(160,115)	264,265
Fund Balance - January 1	<u>788,037</u>	<u>948,152</u>	<u>(160,115)</u>
Fund Balance - December 31	<u>\$ 892,187</u>	<u>\$ 788,037</u>	<u>\$ 104,150</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$79,497 lower than the original budget.

The final amended expenditure budget for 2005 was \$182,085 lower than the original budget primarily due to the Road Commission reducing the budget for capital outlay. The actual expenditures incurred during 2005 were less than the final amended budget by \$1,319.

Capital Assets

As of December 31, 2005 and December 31, 2004, the Road Commission had invested \$12,816,922 and \$12,120,498 respectively in net capital assets.

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

	12/31/05	12/31/04	Increase/ (Decrease)
Capital assets not being depreciated:			
Land and Improvements	\$ 17,476	\$ 17,476	\$ -
Infrastructure and Land Improvements	5,398,090	4,710,729	687,361
Subtotal	5,415,566	4,728,205	687,361
Capital assets being depreciated:			
Buildings	1,999,378	1,999,378	-
Equipment - Road	2,855,717	2,471,229	384,488
Equipment - Shop	42,004	41,468	536
Equipment - Office	38,290	38,290	-
Equipment - Engineering	7,235	7,235	-
Depletable Assets	83,640	83,640	-
Infrastructure - Bridges	2,098,789	2,098,789	-
Infrastructure - Roads	7,038,716	6,535,959	502,757
Subtotal	14,163,769	13,275,988	887,781
Total Capital Assets	19,579,335	18,004,193	1,575,142
Total Accumulated Depreciation	6,762,413	5,899,974	862,439
Total Net Capital Assets	<u>\$ 12,816,922</u>	<u>\$ 12,104,219</u>	<u>\$ 712,703</u>

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$1,190,118. The infrastructure recorded, during 2005 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by GASB 34 in a prior year.

This year's major capital asset additions included the following:

Various equipment	\$ 2,656
Komatsu Dozer	82,200
Van	9,670
Various Resurfacing Projects and Related Costs-Infrastructure	1,190,118
Entyre trailer	44,250
3 International Tandem Trucks	246,248
Total Additions	<u>\$ 1,575,142</u>

There were several installment purchase agreements entered into during 2005. All the equipment was acquired with Road Commission funds and details are reported in Note J to the financial statements.

Debt

At the year end, the Road Commission had \$815,000 in bonds and \$546,229 in installment debt, an increase of \$438,969 from 2004. The bonds are payable over a nine year period with a final payment due November 1, 2013. Other long-term debt is accrued vacation and sick pay leave.

In 2006, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

**MONTMORENCY COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the Road Commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2006 budget. These factors included the economy, township contributions, interest rates and various others. We are projecting no increase in revenue over the year 2005, with an increase in expenses, primarily due to bond principal payments on the \$900,000 bonds and additional principal and interest on installment loans.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Montmorency County Road Commission's administrative offices at 11445 M-32, Atlanta, MI 49709 or call 989-785-3334.

MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

ASSETS	
Cash demand and time deposits	\$ 407,401
Accounts receivable:	
Michigan Transportation Fund	360,620
Sundry Accounts	979
Inventories	
Road Materials	179,387
Equipment Parts and Materials	71,180
Prepaid expenses	26,862
Capital Assets (Net of Accumulated Depreciation)	<u>12,816,922</u>
 TOTAL ASSETS	 <u><u>\$ 13,863,351</u></u>
LIABILITIES	
Current Liabilities	
Account payable	50,671
Accrued liabilities	57,288
Deferred Revenue - Township Advance	50,688
Current Portion - Long-Term Debt	177,220
Noncurrent liabilities:	
Bonds payable	725,000
Vested employee benefits payable	215,634
Installment loans payable	<u>459,009</u>
 TOTAL LIABILITIES	 <u>1,735,510</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,455,693
Restricted for County Roads	<u>672,148</u>
 TOTAL NET ASSETS	 <u><u>\$ 12,127,841</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Program Expenses	
Primary Road Maintenance	\$ 1,087,595
Local Road Maintenance	1,233,137
Net Equipment Expense	74,992
Net Administrative Expense	289,763
Compensated Absences	(47)
Interest Expense	<u>37,110</u>
Total Program Expenses	<u>2,722,550</u>
Program Revenue	
License and Permits	38,504
Federal Grants	227,513
State Grants	2,458,718
Contributions From Local Units/Other	211,721
Investment Earnings	14,256
Reimbursements/Miscellaneous/Other	<u>131,466</u>
Total Program Revenue	<u>3,082,178</u>
Net Program Revenue	<u>359,628</u>
Change in Net Assets	359,628
Net Assets	
Beginning of Year	<u>11,768,213</u>
End of Year	<u>\$ 12,127,841</u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2005

	<u>General Operating Fund</u>
ASSETS	
Cash Demand and Time Deposits	\$ 407,401
Accounts Receivable:	
Due from State	360,620
Sundry	979
Inventories	
Road Materials	179,387
Equipment Parts and Materials	71,180
Prepaid Expenses	<u>26,862</u>
TOTAL ASSETS	<u><u>\$ 1,046,429</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	\$ 50,671
Accrued Liabilities	52,883
township Advances - Deferred Revenue	<u>50,688</u>
TOTAL LIABILITIES	154,242
FUND EQUITY	
Fund Balance	
Undesignated	<u>892,187</u>
TOTAL FUND EQUITY	<u>892,187</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 1,046,429</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
to the Statement of Net Assets
DECEMBER 31, 2005

Total Governmental Fund Balance	\$ 892,187
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Capital assets at cost	\$ 19,579,335
Accumulated depreciation	(6,762,413)

Installment debt - not due and payable in current year and is not reported in the funds	(546,229)
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Accrued interest on bonds payable is not included as a liability in the funds	(4,405)
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Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(815,000)
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Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(215,634)</u>
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Net Assets of Governmental Activities	<u><u>\$ 12,127,841</u></u>
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See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Operating Fund
REVENUES	
Licenses and Permits	\$ 38,504
Federal Grants	227,513
State Grants	2,458,718
Contributions From Local Units	211,721
Interest, Rents, and Royalties	14,256
Other Revenue	<u>131,466</u>
TOTAL PROGRAM REVENUE	<u>3,082,178</u>
EXPENDITURES	
Public Works	3,173,256
Net Capital Outlay	208,655
Debt Service	<u>145,985</u>
TOTAL EXPENDITURES	<u>3,527,896</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(445,718)</u>
OTHER FINANCING SOURCES (USES)	
Debt Proceeds	<u>549,868</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>549,868</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	104,150
FUND BALANCE - BEGINNING OF YEAR	<u>788,037</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 892,187</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	104,150
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay		1,575,142
Deduct - Depreciation Expense		(878,718)

Repayment of installment loan principal is an expenditure in the governmental fund but reduces long-term liabilities in the Statement of Net Assets		25,899
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Repayment of bonded debt is an expenditure in the governmental fund but reduces long-term liabilities in the Statement of Net Assets		85,000
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Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements

Add - decrease in vested employee benefits		47
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Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement

Less - increase in accrued interest payable		(2,024)
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Proceeds on long term debt which provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Assets

Less - proceeds from long-term debt		(549,868)
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Change in Net Assets	\$	359,628
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See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Montmorency County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montmorency County Road Commission.

REPORTING ENTITY

The Montmorency County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners elected by the voters of the county. The Road Commission may not issue debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the governmental Accounting Standards Board (GASB) Statement NO. 14, "The Financial Reporting entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montmorency County Road Commission, a discretely presented component unit of Montmorency County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Montmorency County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation - Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus/Basis of Accounting - Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements. Prepaid insurance is the item recorded for 2005.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montmorency County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Montmorency County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets, as required by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years	Shop Equipment	10 years
Road Equipment	5 to 8 years	Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years	Infrastructure - Roads	8 to 30 years
Infrastructure - Bridges	12 to 50 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change - Effective January 1, 2004 the Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic financial Statements - and Management's Discussion and Analysis - for State and Local governments (GASB No. 34)*, along with all related statements and interpretations. Changes to the Road Commission's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Road Commission's overall financial position and results of operations has been included.

Basic financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for the operating fund has been provided.

Capital assets in the statement of net assets includes assets totaling \$12,816,922 not previously accounted for by the Road Commission in its operating fund. This includes \$10,401,700 of infrastructure which is further explained under the capital assets caption.

The statement also includes bonds and other long-term obligations totaling \$1,361,229 previously reported in the General Long-term Debt Account Group.

The operating fund now accrues a liability for compensated absences. At December 31, 2005 that amount was \$215,634.

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2005 the County Road Commission incurred no expenditures in excess of the amounts budgeted.

NOTE C - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest cash	\$ 200	Imprest cash	\$ 200
Cash demand and time deposits	407,201	Savings and checking Accounts	407,201
Total	<u>\$ 407,401</u>		<u>\$ 407,401</u>

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE C - CASH AND INVESTMENTS (CONTINUED)

DEPOSITS - At year-end the carrying amount of the Road Account deposits was \$407,201 and the bank balance was \$475,950. These funds are 35.9% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the Commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The Road commission has no investments at December 31, 2005.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest Rate Risk – The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial Deposit Credit Risk – Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end \$170,750 of the Commission's bank balance of \$407,201 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE D- POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to pension benefits described in Note 3, the Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$474 per month would be paid towards health insurance coverage for any retired employee. During 2005, five retirees received this benefit and approximately \$28,440 in premiums were paid on their behalf.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE E - CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balance 1/1/05	Additions	Disposals	Balance 12/31/05
Capital assets not being depreciated:				
Land and Improvements	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	4,710,729	687,361	-	5,398,090
	<u>4,728,205</u>	<u>687,361</u>	<u>0</u>	<u>5,415,566</u>
Capital assets being depreciated:				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	2,471,229	384,488	-	2,855,717
Equipment - Shop	41,468	536	-	42,004
Equipment - Office	38,290	-	-	38,290
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure - Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	6,535,959	502,757	-	7,038,716
Subtotal	<u>13,275,988</u>	<u>887,781</u>	<u>-</u>	<u>14,163,769</u>
Accumulated Depreciation:				
Buildings	242,466	43,765	-	286,231
Equipment - Road	2,131,878	123,995	-	2,255,873
Equipment - Shop	21,314	4,342	-	25,656
Equipment - Office	25,452	3,288	-	28,740
Equipment - Engineering	3,099	979	-	4,078
Depletable Assets	27,940	-	-	27,940
Infrastructure - Bridges	324,250	58,842	-	383,092
Infrastructure - Roads	3,107,296	643,507	-	3,750,803
Subtotal	<u>5,883,695</u>	<u>878,718</u>	<u>-</u>	<u>6,762,413</u>
Net Capital Assets Being Depreciated	<u>7,392,293</u>	<u>9,063</u>	<u>-</u>	<u>7,401,356</u>
Total Net Capital Assets	<u>\$ 12,120,498</u>	<u>\$ 696,424</u>	<u>\$ -</u>	<u>\$ 12,816,922</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 392,652
Local	309,697
Equipment	172,102
Administration	<u>4,267</u>
Total depreciation	<u>\$ 878,718</u>

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE F - EQUIPMENT LEASES

The Road Commission has entered into long term equipment leases as follows:

<u>Equipment Item</u>	<u>Lease Date</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950GII Wheel Loader	11/15/05	11/15/11	\$ 1,452	77,452
CAT 928G Wheel Loader	09/15/05	09/15/11	825	50,825
CAT 930G Wheel Loader	09/15/05	09/15/11	824	57,324
CAT 140H Motor Grader	12/15/05	12/15/11	1,627	101,627
CAT 140H Motor Grader	11/15/05	11/15/11	1,579	101,579
CAT 143H Motor Grader	09/15/05	09/15/11	1,404	101,404
CAT 613 Scraper		05/15/07	<u>2,758</u>	120,000
			<u>\$ 10,469</u>	

NOTE G - FEDERAL REVENUE/GRANTS

The accompanying financial statements reports federal revenue for the year ended December 31, 2005 as \$227,513. All of this revenue was for contracted projects paid for and administered by the Michigan Department of Transportation. These contracted projects are not subject to A-133 single audit requirements at the individual road commission level, as they are included in the MDOT's single audit. A single audit is not required at Montmorency County Road Commission for the fiscal year ended December 31, 2005.

NOTE H - RISK MANAGEMENT

Montmorency County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between Municipal Corporations (inter-local agreements) to form group self-insurance pools.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, vehicle liability coverages, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Montmorency County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, vehicle and equipment liability, bodily injury, property damage and personal injury liability. The Pool agreement provides that it shall be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance based upon limits determined by the Pool Board of Directors.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE I - PENSION PLAN

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Covered payroll was \$1,023,503 total payroll was \$1,023,503 for the year. The total contribution to the plan for 2005 was \$58,258.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE I - PENSION PLAN (CONTINUED)

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2005	\$ 1,145,005
Employer Contributions	58,258
Employee Contributions	49,579
Net Investment Earnings and Market Value Increase	167,970
Administrative Fees	(9,605)
Distributions	<u>(13,333)</u>
 Total Plan Assets at December 31, 2005	 <u><u>\$ 1,397,874</u></u>

NOTE J - CHANGES IN LONG-TERM DEBT

<u>Description</u>	<u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>
Installment Loans:				
Citizens Bank	\$ -0-	\$ 415,706	\$ 3,629	\$ 412,077
New Holland Tractor/Mower	22,260	-0-	10,831	11,429
Komatsu Dozer	-0-	80,400	7,252	73,148
Etnyre Trailer	-0-	44,092	3,852	40,240
Ford Credit – Van	-0-	9,670	335	9,335
Series 2003 Bond Issue	900,000	-0-	85,000	815,000
Compensated Absences	<u>215,681</u>	<u>-0-</u>	<u>(1) 47</u>	<u>215,634</u>
 Totals	 <u><u>\$ 1,137,941</u></u>	 <u><u>\$ 549,868</u></u>	 <u><u>\$ 110,946</u></u>	 <u><u>\$ 1,576,863</u></u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Other</u>	<u>Total</u>
Principal	\$177,220	\$176,213	\$179,907	\$188,288	\$183,055	\$456,546	\$ 1,361,229
Interest	<u>50,656</u>	<u>44,799</u>	<u>38,855</u>	<u>32,376</u>	<u>25,937</u>	<u>46,735</u>	<u>239,408</u>
 Totals	 <u><u>\$227,876</u></u>	 <u><u>\$221,012</u></u>	 <u><u>\$218,762</u></u>	 <u><u>\$220,664</u></u>	 <u><u>\$209,042</u></u>	 <u><u>\$503,281</u></u>	 <u><u>\$ 1,600,637</u></u>

Installment Loans:

In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%. The loan matures in 2006.

On June 29, 2005 the Road Commission lease/purchased a Komatsu Dozer. Monthly payments of \$1,499 are due beginning August 1, 2005 with a final payment due July 1, 2010. Interest is charged at a rate of 4.50% per annum.

On July 1, 2005 the Road Commission lease/purchased a n Etnyre trailer. Monthly payments of \$818 are due beginning August 5, 2005 with a final payment due July 10, 2010. Interest is charged at a rate of 4.30% per annum.

MONTMORENCY COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE J - CHANGES IN LONG-TERM DEBT (CONTINUED)

On October 16, 2005 the Road Commission purchased a Ford van. Monthly payments of \$243 are due beginning November 16, 2005 with a final payment due October 16, 2009. Interest is charged at a rate of 9.4% per annum.

On November 2, 2005 the Road Commission purchased three International trucks and related equipment. Citizens Bank financed the transaction in two parts. One part financed the trucks and the other portion of the note purchased the attached equipment. Monthly payments of \$3,400 and \$2,339 are due beginning December 15, 2005 with a final payment due November 15, 2012. Interest is charged at a rate of 4.25% per annum.

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	Interest Rate	May 1		November 1	
		Interest	Principal	Interest	Principal
2006	2.50%	13,215	-0-	13,215	90,000
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$ 66,210</u>	<u>\$ -0-</u>	<u>\$ 66,210</u>	<u>\$ 815,000</u>

Interest rates varied between 2.50% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2005 was \$131,754. Vacation and personal days accumulated created a liability of \$83,880 for a total of \$215,634.

NOTE K – CASH ACCOUNT/SUBSEQUENT EVENT

At December 31, 2005 the Road Commission had ordered equipment such as a dump box, underbody scraper, hydraulic system, and other parts for the three tandem trucks purchased in November of 2005 and paid for prior to the end of the fiscal year. However, this equipment had not been invoiced nor delivered prior to December 31, 2005, and therefore were not recorded in 2005, but the bank loan proceeds were deposited. At December 31, 2005 the Road Commission was committed to a payment of \$169,457 that occurred in late January of 2006.

REQUIRED SUPPLEMENTAL INFORMATION

MONTMORENCY COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Licenses and Permits:				
Permits	\$ 45,000	\$ 38,500	\$ 38,504	\$ 4
Subtotal	45,000	38,500	38,504	4
Federal Aid:				
D Funds	300,000	227,500	227,513	13
Other	35,000	-	-	-
Subtotal	335,000	227,500	227,513	13
State Aid:				
Engineering	10,000	10,000	10,000	-
Allocation	2,240,000	2,259,123	2,259,123	-
Snow Removal	30,000	34,162	34,162	-
Economic Development Funds	114,500	155,355	155,433	78
Subtotal	2,394,500	2,458,640	2,458,718	78
Contributions				
Townships	150,000	211,700	211,721	21
Other	5,000	-	-	-
Subtotal	155,000	211,700	211,721	21
Interest and Royalties				
Interest Income	1,000	8,200	8,712	512
Royalty Income	-	6,000	5,544	(456)
	1,000	14,200	14,256	56
Other Revenue:				
Miscellaneous/Salvage Sales	800	2,900	2,966	66
Sale of Equipment	-	128,500	128,500	-
Subtotal	800	131,400	131,466	66
Total Operating Revenue	2,931,300	3,081,940	3,082,178	238
Other Financing Sources:				
Proceeds From Debt	780,000	549,868	549,868	-
Total Other Financing Sources	780,000	549,868	549,868	-
Total Revenue	\$ 3,711,300	\$ 3,631,808	\$ 3,632,046	\$ 238

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Adopted Budget	Final Amended Budget	Actual	Variance with Final Budget
Primary Road:				
Preservation - Structural Improvement	\$ 650,000	\$ 886,500	\$ 886,479	\$ 21
Maintenance	770,000	695,000	694,943	57
Local Road:				
Preservation - Structural Improvement	350,000	304,000	303,639	361
Maintenance	870,000	924,000	923,440	560
Equipment Expense - Net:				
Direct			597,587	
Indirect			310,182	
Operating			200,965	
Less:				
Equipment Rental			(1,033,742)	
(1)	-	74,995	74,992	3
Administrative Expense - Net:				
Administrative Expense			290,236	
Less:				
Purchase Discounts			(473)	
(1)	270,000	290,000	289,763	237
Capital Outlay - Net:				
Capital Outlay	780,000	385,100	385,024	76
Less:				
Depreciation	(230,000)	(176,370)	(176,369)	(1)
(1)	550,000	208,730	208,655	75
Debt Service:				
Interest	45,000	35,090	35,087	3
Principal	206,300	110,900	110,898	2
	251,300	145,990	145,985	5
Total Expenditures	\$ 3,711,300	\$ 3,529,215	\$ 3,527,896	\$ 1,319

(1) Budgeted in total

See Notes to Financial Statements

SUPPLEMENTAL INFORMATION

MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues and Other Financing Sources	\$ 2,292,674	\$ 1,334,220	\$ 5,152	\$ 3,632,046
Total Expenditures	<u>2,133,840</u>	<u>1,390,974</u>	<u>3,082</u>	<u>3,527,896</u>
Excess of Revenues Over (Under) Expenditures	<u>158,834</u>	<u>(56,754)</u>	<u>2,070</u>	<u>104,150</u>
Fund Balance - January 1, 2005	195,059	394,563	198,415	788,037
Optional Transfers	<u>(160,000)</u>	<u>160,000</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31, 2005	<u>\$ 193,893</u>	<u>\$ 497,809</u>	<u>\$ 200,485</u>	<u>\$ 892,187</u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits:				
Permits	\$ -	\$ 38,504	\$ -	\$ 38,504
Federal Aid:				
D Funds	227,513	-	-	227,513
State Aid:				
Engineering	5,983	4,017	-	10,000
Allocation	1,351,715	907,408	-	2,259,123
Snow Removal	-	34,162	-	34,162
Economic Development Funds	56,878	-	-	56,878
Forest Road funds	98,555	-	-	98,555
Contributions				
Townships	-	211,721	-	211,721
Interest				
Interest Income	2,162	4,364	2,186	8,712
Other Revenue:				
Salvage Sales / Miscellaneous	-	-	2,966	2,966
Royalties	-	5,544	-	5,544
Sale of Equipment	-	128,500	-	128,500
Total Revenue	1,742,806	1,334,220	5,152	3,082,178
Other Financing Sources				
Note Proceeds	415,706	-	-	415,706
Installment Purchases/Leases	134,162	-	-	134,162
Total Other Financing Sources	549,868	-	-	549,868
Total Revenues and Other Financing Sources	<u>\$ 2,292,674</u>	<u>\$ 1,334,220</u>	<u>\$ 5,152</u>	<u>\$ 3,632,046</u>

See Notes to Financial Statements

MONTMORENCY COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road:				
Structural Improvements	\$ 886,479	\$ -	\$ -	\$ 886,479
Maintenance	694,943	-	-	694,943
Local Road:				
Structural Improvements	-	303,639	-	303,639
Maintenance	-	923,440	-	923,440
Equipment Expense - Net	34,617	37,293	3,082	74,992
Administrative Expense - Net	163,161	126,602	-	289,763
Capital Outlay - Net	208,655	-	-	208,655
Debt Service				
Interest	35,087	-	-	35,087
Principal	110,898	-	-	110,898
Total Expenditures	<u>\$ 2,133,840</u>	<u>\$ 1,390,974</u>	<u>\$ 3,082</u>	<u>\$ 3,527,896</u>

See Notes to Financial Statements



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 17, 2006

Board of County Road Commissioners
Montmorency County Road Commission
Atlanta, Michigan 49709

I have audited the component unit financial statements of the governmental activities and major fund of the Montmorency County Road Commission, a Special Revenue Fund of the County of Montmorency, Michigan, as of and for the year ended December 31, 2005 which collectively comprise the Montmorency County Road Commission's basic financial statements, and have issued my report thereon dated February 17, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government and Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Montmorency County Road Commission in a separate letter dated February 17, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montmorency County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, grants, and contract agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

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Montmorency County Road Commission
February 17, 2006

This report is intended solely for the information and use of management, the Board of Road Commissioners, the Michigan Department of Treasury, and Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA, P.C." in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

February 17, 2006

Board of County Road Commissioners
Montmorency County
Atlanta, MI 49709

In planning and performing my audit of the component unit financial statements of Montmorency County Road Commission, for the year ended December 31, 2005, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control structure. However, I noted certain matters that I feel should be brought to your attention as follows:

INTERNAL CONTROL/SEGREGATION OF DUTIES

There is not adequate segregation of duties in the accounting area. The individual who posts all journals and the general ledger also prepares checks and related disbursements journals, and also initiates most journal entries and then signs checks.

I recognize that with only two full time individuals working in the accounting area adequate segregation of duties is not only difficult but for all practical purposes impossible. The Board must recognize that all internal controls must be evaluated for cost effectiveness and at this point little can be done to increase the control without a considerable cost increase. The controls which could be added would have to be compared with the costs required to obtain those controls. By assigning the bank reconciliation procedures to another employee, considerable strengthening of internal accounting control could occur.

INVENTORY/INVENTORY DETAIL

The detail road materials inventory records do not agree to the general ledger totals at year end nor did they agree throughout the year. In addition, no physical inventory was taken at or close to December 31, 2005 in order to agree the physical to the year end records.

I suggest that during 2006 a monthly physical be taken on road materials and that the detail records be reconciled each time to the ledger control totals.

Your parts inventory detail also was slightly out of balance and a monthly reconciliation of the detail to the general ledger should also be done.

We have noticed that all of the road commissions we audit have difficulty balancing these records, and if you can't get the totals to agree, possibly Cogitate could assist in this balancing process.

IRS REPORTING

The Internal Revenue Service requires that form 1099 be issued to all unincorporated businesses for payment for goods and services. This would include purchase of gravel, sand, janitorial services, etc. This is required when the total payments for the year exceed \$600. Your Cogitate system tracks this information and can be used to assist in the preparation of these forms.

In addition, all attorneys are required to receive a 1099 regardless of amount or corporation status.

COMP TIME

The general ledger account used to record comp time and accrued wages should be reconciled to the manually maintained system each month. This would help assure accuracy in these payroll records. In addition, your union contract requires that all comp time be paid periodically and not carried over. I suggest you comply with this provision of the contract which would save considerable accounting time and simplify the payroll process.

This report is intended solely for the information and use of the Montmorency County Road Commission, its management, and the Michigan Departments of Treasury and Transportation and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT